

PROGRAM EVALUATION REPORT

WEST VIRGINIA

Drinking Water Treatment Revolving Fund Program

STATE FISCAL YEAR 2010

FINAL

August 2011

**U.S. Environmental Protection Agency
Region III
Philadelphia**

TABLE OF CONTENTS

TABLE OF CONTENTS.....	2
EXECUTIVE SUMMARY.....	4
INTRODUCTION.....	5
PURPOSE.....	5
SCOPE.....	5
BACKGROUND.....	6
PROGRAMMATIC AREAS REVIEWED.....	7
PUBLIC HEALTH BENEFITS.....	7
Jane Lew Public Service District.....	7
Town of Bath.....	7
PROGRAM MANAGEMENT.....	8
Unexpended Grant Balances.....	8
ENVIRONMENTAL REVIEW.....	9
SMALL AND DISADVANTAGE ASSISTANCE.....	9
OPERATING AGREEMENT.....	9
PROGRAMMATTIC REPORTING.....	10
Annual Report.....	10
Drinking Water National Information Management System ("DWNIMS").....	10
Disadvantaged Business Enterprises ("DBE").....	10
DRINKING WATER SET-ASIDE ACTIVITIES.....	10
Set-Aside Obligations and Expenditures.....	10
Revised Set-Aside Spending Plan.....	11
FINANCIAL AREAS REVIEWED.....	12
HEALTH OF THE FUND.....	12
Long-Term Financial Planning and Modeling.....	13
DWTRF FINACIAL INDICATORS.....	14
Program Pace (Loans as percentage of Funds Available).....	15
Return on Federal Investment.....	15
Disbursements as a Percentage of Assistance.....	15
Net Return after Excluding Subsidy.....	15
Net Return on Contributed Capital Excluding Subsidy.....	15
AUIDITS OF THE FUND.....	16
LOAN MONITORING.....	17
GRANT COMPLIANCE AREAS REVIEWED.....	19
PAYMENTS.....	19
STATE MATCH.....	19
BINDING COMMITMENTS.....	19
FEDERAL FINANCIAL REPORTS.....	19
ADMINISTRATIVE COSTS.....	19
ERRONEUS PAYMENT REVIEW.....	20

RECOMMENDATIONS AND REQUIREMENTS.....	21
ACTION ITEMS FOR BPH.....	21
ACTION ITEMS FOR EPA.....	21
PRIOR YEAR ACTION ITEMS.....	22
ACTION ITEMS FOR BPH.....	22
ACTION ITEMS FOR EPA.....	22

**PROGRAM EVALUATION REPORT
West Virginia
Drinking Water Treatment Revolving Fund**

STATE FISCAL YEAR 2010

EXECUTIVE SUMMARY

This Program Evaluation Report (“PER”) is the U.S. Environmental Protection Agency’s (“EPA”) evaluation of the West Virginia Bureau for Public Health’s (“BPH” or “the State”) Drinking Water Treatment Revolving Fund (“DWTRF”) program. The report identifies strengths and areas for improvement in the program. The review covers the period July 1, 2009 through June 30, 2010. EPA conducted its on-site programmatic and financial review from May 10-12, 2011.

The State continues to do an excellent job of meeting the needs of small and disadvantaged communities. The State met the binding commitments (“BCs”) requirement during FY 2010, the State’s program pace increased to 95.5% from 74.5% in FY 2009. The program exhibits sound financial strength, BPH is slightly above the national average (95%) for loan closings as percentage of total funds available.

The following are among the recommended and/or required actions for improving the State’s DWTRF program implementation. A summary can be found later in the report:

- WDA should ensure that it receives and reviews all required borrower audits in a timely manner.

EPA requests that the State respond to the identified FY 2010 action items within 60 days of receipt of the final FY 2010 PER. In its response, the State should identify actions already taken and outline a plan with a schedule for expeditiously taking additional steps to address the identified concerns. The plan must clearly identify how and when the State expects to resolve the action items.

INTRODUCTION

PURPOSE

The purpose of an annual review is to assess the State's management of the program, including:

- Performance in achieving goals and objectives identified in the Intended Use Plans ("IUPs") and Annual Report;
- Compliance with the terms of the capitalization grant agreements, Operating Agreement ("OA"), and regulations;
- Financial status and performance of the Fund and set-aside accounts;
- Status of resolution of prior year PER action items;
- Resolution of audit findings and recommendations; and
- Discussion of future direction and initiatives for the program.

SCOPE

The FY 2010 annual review of West Virginia's DWTRF program was conducted in accordance with EPA's Interim Final Annual Review Guidance and Region III's Annual Review Plan for FY 2010. The annual review process included EPA's consideration of BPH's Annual Report, evaluation of the State's program, and issuance of this PER.

EPA conducts separate reviews of the technical aspects of the drinking water program activities undertaken with set-aside funds in conjunction with its review of the State's Public Water System Supervision ("PWSS") program. The current DWTRF review examined the administrative and financial aspects of the set-aside activities.

This PER is the EPA's evaluation of West Virginia's DWTRF program and documents the annual review process, as required by the Safe Drinking Water Act ("SDWA"). The PER identifies strengths and areas for improvement in the program. The annual review covered the period July 1, 2009 through June 30, 2010. EPA conducted its on-site review from May 10-12, 2011.

BACKGROUND

Title 64 of the West Virginia Code, authorized BPH to implement and manage the DWTRF program in accordance with the requirements and objectives of the SDWA. The DWTRF program resides in the Department of Health and Human Resources (“DHHR”) which also provides management for the Drinking Water State Revolving Fund (“DWSRF”) financial matters, including grants management and disbursement of funds. Additional coordination with offices of the State Treasurer and the State Auditor ensure proper coordination, management, and oversight as well as program integrity.

In addition to the DWTRF construction fund, BPH administers several set-aside accounts used for: (1) administration of the loan program, (2) small system technical assistance, (3) state program management, and (4) local assistance and other state activities.

As of June 30, 2010, total capitalization for the DWTRF project fund and drinking water set-aside program activities was \$139,427,400¹, which consists of Federal grant funds and state match. During FY 2010, BPH closed twenty nine loans for a total of \$48,906,379, which includes sixteen American Recovery and Reinvestment (“ARRA”) grant fund loans that total to \$16,750,000. On a cumulative basis, the State has made 71 loans totaling \$123,694,688.

¹ *Reflects reductions of \$10,000 to the FY 2002 grant and \$250,000 to the ARRA grant for In-kind services retained by EPA HQ. These “In-kind” are not reflected in DWNIMS.

PROGRAMMATIC AREAS REVIEWED

PUBLIC HEALTH BENEFITS

Consistent with EPA's supplemental guidance, BPH described the public health benefits of the drinking water projects in its IUPs and in its Annual Report. EPA commends BPH for its detailed benefit descriptions. Two of the State's sixteen projects are described below.

Jane Lew Public Service District

The Jane Lew Public Service District ("District") surface water treatment plant in Lewis County was constructed in 1959 with updates in 1981. In the past, the surface water treatment plant has experienced problems meeting federal and state potable water quality standards regarding maximum contaminant levels for trihalomethanes and haloacetic acids. The surface water treatment plant was operated an average of 17.9 hours per day, above the 14 hours per day recommended by BPH, with an overall water loss of approximately 25% - 30%. The deterioration of the water system and the high unaccounted water loss within the distribution system posed a significant health issue. The most cost-effective solution to correct these ongoing public health threats was to remove the District's water treatment facility from service by interconnecting their water system to the West Virginia-American Water Company and upgrade the existing distribution system. This project enables the District meet current and future regulations to protect the public health.

This \$1,005,541 project was made possible by the combination of a \$429,399 DWTRF ARRA loan (principal forgiveness), a \$429,399 DWTRF Base Program loan of (0% for 30 years with no administration fee), a \$96,200 Special Appropriations Act Projects ("SAAP") grant and a \$50,543 West Virginia Infrastructure and Jobs Development Council ("IJDC") soft cost grant.

Town of Bath

The Town of Bath ("Bath") operates a surface water treatment plant that provides water to the northeastern area of Morgan County. Bath's surface water treatment plant was in operation 20 to 24 hours per day, above the 14 hours per day recommended by BPH, with an approximately water loss of 57.9%. The extended pumping times did not allowed for adequate maintenance to be performed at the plant, increasing the probability of a system failure. The most feasible and cost effective alternative to provide safe and reliable service to the residents of Bath was the replacement of the existing distribution lines of the water system to reduce the water loss and decrease the surface water treatment plant operating time.

This \$4,500,000 project was made possible with a combination of a \$2,193,910 DWTRF ARRA loan (principal forgiveness), a \$2,193,910 DWTRF Base Program loan (0% for 30 years with no administration fee), and an \$112,180 IJDC grant. This project provides Bath an economical solution to deliver safe drinking water to its residents.

PROGRAM MANAGEMENT

During FY 2010, BPH closed twenty nine drinking water loans totaling \$48,906,379. BPH's fund utilization rate, normally described as program pace, rose from 74.5% to 95.5% for FY 2010. In FY 2009 State received a grant under ARRA which had a positive impact on the pace of the fund. EPA commends BPH for this significant program pace increase.

The State has established positive steps to increase pace, including:

- Marketing the DWTRF program at the West Virginia Rural Water Association Conference and IJDC meetings; and the West Virginia EXPO in Charleston;
- Publishing articles in the West Virginia Rural Water Association Magazine and the West Virginia Bureau for Public Health and Public Service Commission Newsletters for water treatment operators;
- Sending binding commitment letters prior to DWSRF grant award to streamline the loan process;
- Continuing to work on the goal of closing loans within 18 months of issuing the binding commitments; and
- Leveraging DWTRF funded projects with ARRA funds to improve pace.

Unexpended Grant Balances

There is potential for unexpended funds in selected grants to be deobligated and returned to the Federal Treasury. As a result, timeliness of state application submittals and EPA grant awards will continue to be a priority. EPA will closely monitor grant expenditures in all states. If the recipient fails to make sufficient progress, EPA will take appropriate action.

BPH should continue to review the unexpended balance of grant funds, draw funds in a timely manner, and if necessary, take appropriate actions to accelerate spending.

ENVIRONMENTAL REVIEW

EPA reviewed the files for Sun Valley PSD project, the City of Salem project, the Morgantown Utility Board project and the Southwestern PSD project. All DWTRF project files included full documentation of environmental assessments to support DWSRF eligibility determinations.

SMALL AND DISADVANTAGE ASSISTANCE

BPH excels in making drinking water affordable for small and disadvantaged communities. As of June 30, 2010, BPH provided loans totaling \$84.8 million (69% of funds) to small systems, one of the highest nationally, far exceeding the SDWA requirement to provide at least 15% of funding to small systems (under 10,001 population). The national average is 38%.

As of June 30, 2010, BPH provided \$86.3 million in disadvantaged assistance to 54 water systems by offering principal forgiveness, extended loan terms, and lower interest rates. Cumulative, BPH has provided 69.8% of its loan dollars to disadvantaged communities, one of the highest in the nation. The national average is 21.2%. EPA commends BPH for an excellent job of meeting the needs of small and disadvantaged communities.

The EPA's FY 2011 appropriation bill requires states to provide at least 30% of the FY 2011 allocation as loan subsidies. BPH may continue to provide subsidies from other active grants but the 30% limit in the DWSRF regulations applies to the older grants.

OPERATING AGREEMENT

The OA should have current and concise program information to aid in the future development of the WV's DWTRF. In an effort to have the most current information, EPA will work with BPH to review and update the current OA.

Action Item: EPA will work with the State to amend the current OA.

PROGRAMMATIC REPORTING

Annual Report

BPH continues its practice of submitting an Annual Report instead of a Biennial Report as required by the DWSRF regulations. EPA commends BPH for reporting more frequently, facilitating EPA's annual review process. The State submitted its FY 2010 Annual Report.

The report complied with SDWA, DWSRF regulations, and Region III Supplemental Guidance with respect to the following:

- All of the required compliance statements and financial charts; and
- A description of how the short-term and long-term IUPs goals were fulfilled.

Drinking Water National Information Management System ("DWNIMS")

BPH submitted its DWNIMS data in a timely manner. Any differences in amounts between DWNIMS and the Annual Report are due to timing, DWNIMS is prepared earlier than the Annual Report. EPA encourages BPH to reconcile differences and make necessary changes to DWNIMS during the next reporting cycle (August 2011).

Disadvantaged Business Enterprises ("DBE")

Under the DBE regulations in effect during FY 2010, the State was required to provide quarterly reports to EPA indicating utilization of disadvantaged businesses. BPH complied with this requirement.

DRINKING WATER SET-ASIDE ACTIVITIES

Set-Aside Obligations and Expenditures

The chart shows BPH's progress in obligating and expending funds on a cumulative basis for each set-aside category. As of June 30, 2010, the national cumulative average rates of state set-aside expenditures were 95.3% for Technical Assistance, 85.9% for Program Management, and 81.0% for Local Assistance.

The data shows that BPH's cumulative expenditure rate for the Technical Assistance, Local Assistance and Program Management are all above the national average.

<p>SET-ASIDE UTILIZATION FOR ALL GRANTS Cumulative As of June 30, 2010</p>

	Technical Assistance	Program Management	Local Assistance	Total
CUMULATIVE AWARDED	\$1,986,511	\$8,688,966	\$12,749,226	\$23,424,703
CUMULATIVE OBLIGATED	\$1,894,393	\$8,553,677	\$11,239,893	\$21,687,963
% OBLIGATED	95.4%	98.4%	88.2%	92.6%
*EXPENDED	\$1,894,390	\$7,469,783	\$10,335,444	\$19,699,617
% EXPENDED	95.4%	86.0%	81.1%	84.1%
% EXPENDED U.S. Average	79.7%	83.9%	68.2%	

Revised Set-Aside Spending Plan

BPH continues to make progress in the spending down of set-aside funds since the last reporting period. Work plan activities continue to move forward and most of the contracts are well underway. Over 50% of total grant funding has been contracted out or is in the process of being contracted out. In February 2011, the State used \$200,000 out of the 10% set-aside for an EPA In-kind service contract to assist with the Safe Drinking Water Information System ("SDWIS") training and technical assistance for the SDWA implementation. EPA continues to monitor spending closely and report on the status of surplus funds periodically. The State should be spending oldest grants first and is encouraged not to go over the maximum allowable carryover of 150% for prior year funding in accordance with the DWSRF Work Plan Supplemental Guidance.

FINANCIAL AREAS REVIEWED

HEALTH OF THE FUND

Capitalization grants and state match earmarked for the DWTRF as of June 30, 2010 totaled \$139,427,400; EPA HQ decreased the ARRA grant by \$250,000 for In-kind services & reported the lesser amount in DWNIMS. The overall financial growth of the DWTRF has been good due to the continuation of EPA grants and state match funding. As of June 30, 2010, net assets of the DWTRF loan fund were approximately \$82,421,715, not counting approximately \$32,129,629 in unexpended Federal capitalization grant funds. That is 10.51% over FY 2009 net assets of \$72,461,178. Net assets include \$84,502,197 in EPA grants and state match received and approximately \$5,325,202 in net loan and investment interest, and user fees received less \$7,405,684 in ARRA principal forgiveness. Almost all of the growth in net assets to date is from the EPA grants and state match received.

The financial health of the DWTRF program as of June 30, 2010 is good. The State closed 71 loans totaling \$123,694,688, of which, \$65,923,291 is outstanding as loans receivable, as of June 30, 2010. All loans are secured by system revenues and reserves pledged by the borrowing entities. The DWTRF fund account has a strong cash flow. Financial management is sound; there is no debt; and, there have been no loan defaults. A summary of the financial status of the DWTRF program is shown in the table below:

Financial Health Summary As of June 30, 2010	
Cumulative Federal Grants & State Match	\$139,427,400 *
Net Assets	\$82,421,715
Loan Repayments	\$14,707,283
Investment Earnings ²	\$2,879,510
Loan Disbursements ³	\$85,472,368

* EPA HQ decreased the ARRA grant by \$250,000 for In-kind services & reported the lesser amount in DWNIMS.

The State Treasurer invests DWTRF funds in the West Virginia and Government Money Market Pools managed by the West Virginia Board of Treasury Investments ("BTI"). BTI investments include very safe securities such as U.S. Government obligations, repurchase agreements, highly-rated corporate bonds, and commercial paper. U.S. Government obligations are secured by the full faith and credit of the U.S. government. The corporate bonds and other securities have high ratings because they are not likely to default. BTI repurchase agreements are collateralized by U.S. treasury securities at 102 percent of principal. Currently, no DWTRF monies are invested in the Government Money Market Pool. The WV Money Market Pool is rated AAAM by

² FY 2010 investment earnings reported in the financial statements is \$22,343; in the Annual Report, the amount reported is \$22,000.

³ The Annual Report as of June 30, 2010 reports cumulative loan disbursements of \$85,928,107.

Standard and Poors, a major credit rating agency.

The 12 month average yields for the West Virginia and Government Money Market Pools for the FYEs June 30, 2010 and 2009 were:

Account	Yield*	
	2010	2009
West Virginia Money Market Pool	0.12%	1.29%
Government Money Market Pool*	0.06%	1.13%

* Source: Board of Treasury Investments CAFR for FYE June 30, 2010.

Return on Equity ("ROE") measures the growth of capital within the DWTRF. The ROE for the DWTRF was 0.42% for FY 2010, which is less the ROE for FY 2009 of 0.73%. A ROE of 0.42% for a subsidized lending program that issues loans for rates between 0 and 2% is not unexpected; however, it will not maintain purchasing power if the rate of inflation over time is higher than 0.42%.

Long-Term Financial Planning and Modeling

EPA and BPH prepared long-term, baseline financial projections for the DWTRF based upon current financial policies (e.g., interest rates, term of loans, construction period interest). These projections were not discounted by the anticipated rate(s) of inflation over the same time period in the baseline scenario. EPA provided assistance to BPH in using the EPA Financial Planning Model.

These projections showed that DWTRF assets will grow to approximately \$150 million by 2037, based upon a 26 year projection horizon, in nominal dollars. The average annual amount of assistance disbursed will be approximately \$8 million. This is based upon continued Federal grants and state matching contributions through 2015, which is not guaranteed. This projection also assumes that BPH will award 40% of the new Federal grants as principal forgiveness. When adjusted for inflation, the amount of purchasing power reflected in these projections will be less than the nominal amounts.

In prior PERs, EPA suggested that the State consider changing some of the terms it provides borrowers that receive disadvantaged assistance to ensure that the DWTRF will continue to provide assistance in perpetuity as required by the SDWA.

BPH has decided to reduce the rate of administrative fee charged by one half and charge that half as loan interest. BPH believes that this change will increase future revenue for loans over time. EPA commends this decision and agrees with BPH that the additional revenue will increase the DWTRF's capacity to make new loans.

Financial modeling of the DWTRF is designed to be a management tool to be used to plan for the most effective use of resources to achieve the goals and objectives

of the DWTRF program, and to protect the long-term financial viability of the DWTRF. The emphasis is on strategic long-term financial planning. The actual modeling and resulting financial projections are estimates of future capacity of the DWTRF for any given set of assumptions. Effective planning should be done in conjunction with the state's water infrastructure needs, legal requirements, and resources provided from all other Federal and state funding agencies.

Close coordination of planning activities between BPH and the West Virginia Water Development Authority ("WDA") and IJDC is also essential to developing any strategic financial plan. EPA is confident that BPH will continue to work with these agencies to develop and assess financial planning strategies that most effectively address the state's goals and objectives. The EPA Financial Planning Model is an appropriate and effective tool for BPH to use to develop and modify its financial plans. EPA is looking forward to work with BPH, WDA and IJDC to develop strategic planning scenarios using the EPA model to project cash flows for a variety of funding alternatives to address critical state drinking water needs.

DWTRF FINACIAL INDICATORS

All of the indicators generally demonstrate that the DWTRF program's financial performance is adequate. Note that each of the indicators reflects calculations on a cumulative basis:

DWNIMS Financial Indicators				
Indicator	2008	2009	2010	National Average
Program Pace (Loans as a % of Funds Available)	70%	74.5%	95.5%	95%
Return on Federal Investment	123%	126%	129%	177%
Disbursements as a % of Assistance	92%	87%	69%	77%
Net Return Excluding Subsidy	\$4,201,488	\$4,664,645	\$4,943,058	> \$0
Net Return on Contributed Capital Excluding Subsidy	6.8%	6.9%	7.4%	10.5%

Program Pace (Loans as percentage of Funds Available)

The Loans to Funds Available indicator represents the percent of money available in the DWTRF program which has been lent (i.e., executed loans).

Performance on this critical indicator increased from 74.5% in 2009 to 95.5% in 2010. It is slightly above the national average of 95%.

Return on Federal Investment

The Return on Federal Investment ("ROI") indicator shows the amount of financial assistance or loans disbursed for each dollar of Federal cash draws made on a cumulative basis. The national average for this indicator is 177%. The State's result on this indicator is far below the national average; however, for states that have not leveraged, such as West Virginia, the national average for ROI is 127%. Using this indicator as a measure of performance, BPH ROI is 129%, which exceeds the national average for states that do not leverage.

Disbursements as a Percentage of Assistance

Loan Disbursements as a Percentage of Assistance Provided shows the speed at which funds are disbursed to closed loans. It is calculated by dividing cumulative loan disbursements by cumulative assistance provided. The value of the indicator ranges from 0% to no more than 100%. At 69%, BPH is below the national average of 77%.

Net Return after Excluding Subsidy

Net Return after Forgiving Principal, also called Net Return, shows the net earnings of the DWTRF without consideration of loan principal forgiveness. The Net Return indicator shows how well the DWTRF is maintaining invested or contributed capital. The operating earnings are calculated first by subtracting the net bond interest expenses. Then match bond principal is subtracted from these earnings to yield the net return to the DWTRF. The State does not issue bonds to generate its state match. The Net Return indicator shows how well the DWTRF is maintaining invested or contributed capital. Note that performance is expected to be a net positive return.

Net Return on Contributed Capital Excluding Subsidy

Net Return on Contributed Capital gives context to the Net Return indicator by comparing the net return of the DWTRF to the dollar amount of contributed capital. It is calculated by dividing the Net Return by cumulative contributed capital and expressed as a percentage. As of June 30, 2010, the DWTRF returned approximately \$1.07 for each dollar of contributed capital invested. Contributed capital is equal to total Federal cash draws less set-aside expenses and less principal forgiveness plus state match deposited into the DWTRF. At 7.4%, the net return on contributed capital for BPH is above 0%, and is below the national average of 10.5%.

AUDITS OF THE FUND

On December 14, 2010, the independent certified public accountants (“CPAs”) issued their opinion on the DWTRF audited financial statements which includes the State construction loan portion of the DWTRF. The auditors expressed an unqualified opinion on these financial statements, indicating that they are fairly presented and conform to generally accepted accounting principles.

2010-1 Internal Control over Financial Reporting

The auditors found that contract accountants create and post journal entries in the general ledger without supervisory approval. The auditors recommended that the DWTRF establish appropriate policies and procedures, and hire supervisory personnel to oversee the entire accounting process.

During the EPA FY 2010 Annual Review, the reviewers spoke to WDA officials and the independent CPA responsible for reporting the audit finding. They stated that the additional personnel needed to correct this deficiency had been hired during FY 2011 (the current FY at the time of the Annual Review). The CPA also tentatively stated that the finding should not be reported again for FY 2011 since the new financial staff members were employed for most of FY 2011. If the new staff performed the required internal control procedures, and the WDA Executive Director properly approved and authorized all financial transactions, the financial reporting finding should be resolved.

EPA observed that the corrective actions reported in the FY 2009 WDA audit had been taken; however, OIA will continue to monitor the control environment, and review the FY 2011 independent audit when it is issued to confirm that this issue has been resolved.

The FY 2009 finding that WDA did not monitor sub-recipient compliance through the review of required sub-recipient audits, and the absence of procedures in place to monitor the receipt and review of these audit reports, was resolved in FY 2010 according to the FY 2010 financial audit. The auditor’s recommendation that management recruited qualified individuals with which to fill vacant positions was implemented. OIA is satisfied with these actions and will continue to monitor subrecipient audit requirements compliance.

The FY 2010 West Virginia Statewide Single Audit has been issued. The Single Audit covers both set-aside and project loan expenditures. Total FY 2010 Federal expenditures related to the DWTRF program identified in the Single Audit Schedule of Expenditures of Federal Awards (SEFA) were \$19,013,455 determined on a cash basis. This amount differs from the \$19,330,488 total expenditures reported on the FY 2010 Federal Financial Reports (FFRs) by \$317,033. DHHR provided a detailed reconciliation of this difference. EPA is satisfied that WV 2010 DWTRF expenditures were reported properly to EPA and on the Single Audit.

The DWTRF program was audited as a major program in FY 2010. The Single Audit contained no DWTRF findings but it did contain a finding that had an impact on the DWTRF program. The auditors noted that WV State agencies did not have a formal

internal control process surrounding the preparation of the SEFA. As noted above, EPA was able to obtain a reconciliation of the expenditures reported in the SEFA to the amounts reported in the FFRs. EPA is satisfied with DHHR BPH's procedures to report DWTRF expenditures on the SEFA.

LOAN MONITORING

EPA reviewed the State's loan compliance monitoring program procedures and found them effective. The system includes a review of the Municipal Bond Commission ("MBC") collection reports on each of BPH's loans, the annual budgets of all borrowers, and annual financial statement audits for all of borrowers. In addition, required Single Audits are reviewed and any findings and recommendations resolved.

The State uses the MBC as the collection agent on all loans. The MBC's rate coverage and debt service reserve requirements reduce the likelihood of delinquencies or loan defaults.

EPA reviewed the borrower audit tracking sheets and information reported in the Annual Report. In our FY 2009 PER EPA stated that WDA and BPH must assure that required audits are received and reviewed timely. As stated in the above Audit section, this finding has been resolved with respect to required A-133 subrecipient audits.

To assess WV's DWTRF financial capability system, EPA reviewed four new (non-ARRA) loans closed in FY 2010 totaling \$16,617,286:

Borrower	Date	Amount
Morgantown	1/28/2010	\$9,317,286
City of Salem	1/14/2010	900,000
Southwestern Water District	3/12/2010	6,100,000
Sun Valley PSD	1/14/2010	300,000
Total		\$16,617,286

All of the selected loans included a dedicated source of revenue for repayment of the loan, and all required DWTRF terms and conditions. Financial reviews were performed on all of these borrowers, and the terms, conditions, covenants and loan security provisions included in the loan and bond documents reflected the results of these reviews and the credit recommendations made.

Action Item: WDA should ensure that it receives and reviews all required borrower audits in a timely manner.

GRANT COMPLIANCE AREAS REVIEWED

PAYMENTS

Consistent with the payment schedules in the grant agreements, during FY 2010 EPA released and the State accepted Federal payments totaling \$27,302,954 from the Automated Standard Application for Payments ("ASAP") account. Of this amount, \$24,874,125 was for projects and \$2,428,829 was for set-asides. Cumulative payments as of June 30, 2010 totaled \$117,589,131: \$90,962,952 for projects and \$26,626,179 for set-asides.

STATE MATCH

Based on cumulative Federal payments as of June 30, 2010, the required match was \$19,667,826. As of June 30, 2010, the State had deposited \$19,987,900 into the Fund, as shown in the State's FY 2010 Annual Report. BPH met the 20% state match requirement for projects. This agrees with the amount reported in DWNIMS.

Under the Program Management set-aside, BPH was required to provide \$814,600 in state match funds based on Federal disbursements made during FY 2010. The State provided the required match as shown in the State's FY 2010 Annual Report. This amount agrees with what was reported in DWNIMS.

BINDING COMMITMENTS

Total BCs required as of June 30 2010 were \$104,669,966 based on cumulative Federal grant payments through FY 2009 of \$66,088,827. Actual BCs as of June 30 2010 were \$123,694,688. The State exceeded the BC requirement by \$19,024,722. The State is in compliance with the BC requirement for FY 2010.

FEDERAL FINANCIAL REPORTS

BPH reported \$19,330,488.30 in Federal outlays on the FFRs submitted for the reporting period July 1, 2009 to June 30, 2010. This amount reconciles with the net federal disbursements reported on the state's audited financial statements.

ADMINISTRATIVE COSTS

Cumulative administrative costs charged to the DWSRF capitalization grants as of June 30, 2010 total \$2,771,734 or 2.32% of the total grants awarded. This is within the 4% ceiling set by the SDWA.

ERRONEUS PAYMENT REVIEW

EPA tested four DWSRF cash draws totaling \$499,449.79 of a total of \$19,184,256.79 EPA cash draws for FY 2010, to determine if BPH made any erroneous

payments:

Cash Draws Reviewed			
Grant	Date	Amount	Amount Questioned
FS-993900-07	6/30/2010	\$165,654.00	-
FS-993900-06	5/24/2010	\$250,706.00	-
FS-993900-09	4/1/2010	\$12,766.66	-
FS-993900-08	10/20/2009	\$70,323.13	-
Total		\$499,449.79	-

EPA found that the selected cash draws were properly made for eligible DWTRF expenditures and were properly recorded in the BPH accounting records.

RECOMMENDATIONS AND REQUIREMENTS

ACTION ITEMS FOR BPH

1. WDA should ensure that it receives and reviews all required borrower audits in a timely manner.

ACTION ITEMS FOR EPA

1. EPA will work with the State to amend the current OA. **Repeated from 2009**

PRIOR YEAR ACTION ITEMS

ACTION ITEMS FOR BPH

1. BPH should take additional measures to increase the pace of loan issuance. **Resolved**
2. BPH must take appropriate actions to accelerate set-asides spending. **Resolved**
3. WDA and BPH must obtain adequate professional staff to assure that required audits are received and reviewed timely. **Resolved.**

ACTION ITEMS FOR EPA

1. EPA will work with the State to amend the current OA. **Ongoing**
2. EPA will work with BPH, WDA and IJDC to develop strategic planning scenarios using the EPA model to project cash flows for a variety of funding alternatives to address critical state drinking water needs. **Resolved**